

**Van Buren/Cass County District
Public Health Department
Hartford, Michigan**

FINANCIAL STATEMENTS

December 31, 2003

Van Buren/Cass County District Public Health Department

TABLE OF CONTENTS

December 31, 2003

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Governmental Fund Balance Sheet	10
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	13
Notes to Financial Statements	14-21
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Special Revenue Fund	22
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	23-25
Notes To Schedule of Expenditures of Federal Awards	26
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	27-28
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	29-30
SCHEDULE OF FINDINGS	31
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	32

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INDEPENDENT AUDITOR'S REPORT

Board of Public Health
Van Buren/Cass County District
Public Health Department
Hartford, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of the Van Buren/Cass County District Public Health Department, a component unit of Van Buren County, Michigan as of and for the year ended December 31, 2003, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Van Buren/Cass County District Public Health Department as of December 31, 2003, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Department has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of January 1, 2003, along with all related statements and interpretations.

In accordance with Government Auditing Standards, we have also issued a report dated May 19, 2004, on our consideration of the Van Buren/Cass County District Public Health Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 22 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying other supplementary information and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 19, 2004

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Management's Discussion and Analysis For Fiscal Year Ended December 31, 2003

Van Buren/Cass District Health Department is in its initial year of implementing the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Department's financial performance during the fiscal year ended December 31, 2003, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the Department's financial statements.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statements.

Financial Highlights

- The assets of the Department exceeded its liabilities at December 31, 2003, by \$1,586,253 at the government-wide level. Of this amount, \$1,452,388 (unrestricted net assets) may be used to meet the Agency's ongoing obligations.
- The Agency's total net assets increased \$688,205 as a result of this year's operations.
- As of December 31, 2003, the Department's governmental fund reported an ending fund balance of \$826,743, a decrease of (\$173,595).
- As of December 31, 2003, the unreserved and undesignated fund balance was \$547,232.

Overview of the Financial Statements

The Van Buren/Cass District Health Department's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements: The government-wide financial statements provide information about the activities of the entire Department. They present an overall view of the Department's finances, reporting the assets and liabilities on fiscal year ending December 31, 2003.

The statement of net assets presents information on all of the Van Buren/Cass District Health Department's assets and liabilities, with the difference between the two reported as net assets. Over

time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during fiscal year 2003. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

All of the Van Buren/Cass District Health Department's offices are supported by intergovernmental revenues, governmental grants, donations, fees and charges for services, interest, local appropriations, and contributions. The governmental activities of the Department are all considered health and sanitation programs. The Department does not operate any programs that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include only financial information related to the Van Buren/Cass District Health Department.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Van Buren/Cass District Health Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Department operates with one fund, which is considered a governmental fund.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Van Buren/Cass District Health Department adopts an annual appropriated budget for its Health Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 8-13 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-21 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgeted revenues and expenditures on page 22. Other supplementary information concerning expenditures of federal awards can be found on pages 23-32 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Van Buren/Cass District Health Department, assets exceeded liabilities by \$1,586,253. A comparative analysis of data will be presented in future years when the information is available.

	<u>2003</u>
Current assets	\$ 1,763,889
Capital assets	<u>133,865</u>
Total assets	1,897,754
Current liabilities	150,769
Noncurrent liabilities	<u>160,732</u>
Total liabilities	<u>311,501</u>
Net assets	
Invested in capital assets	133,865
Unrestricted	<u>1,452,388</u>
Total net assets	<u>\$ 1,586,253</u>

Unrestricted net assets (the part of net assets that can be used to finance day to day operations) increased by \$654,869. This represents an increase of approximately 82 percent. Net assets invested in capital assets, net of related debt, increased by \$33,336. This represents an increase of approximately 33 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,452,388, or approximately 33 percent of annual expenses. This is within our desired range.

The following table shows the changes of net assets for the year ended December 31, 2003.

	<u>2003</u>
Program revenues	
Charges for services	\$ 1,618,182
Operating grants and other/contributions	2,601,686
General revenue	
County appropriations	595,988
Hotel liquor tax	115,519
Cigarette tax	46,888
Interest	8,626
Miscellaneous	<u>292</u>
Total revenues	4,987,181
Program Expenses	<u>4,298,976</u>
Change in net assets	<u>\$ 688,205</u>

For the year ended December 31, 2003, operating grants and contributions increased approximately \$98,713 due to receiving Bioterrorism grants and the requirement to record the value of vaccine supply contributed by the State of Michigan as revenue.

Total expenses increased approximately 1.6% over last year. Significant reasons for the increase are the requirement to record the value of contributed vaccine supply used during the year as an expense, general salary increases, and health insurance costs.

Financial Analysis of the Government's Fund

As noted earlier, the Van Buren/Cass District Health Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund: The focus of the Van Buren/Cass District Health Department's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Van Buren/Cass District Health Department's financing requirements. In particular, unreserved-undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Van Buren/Cass District Health Department's governmental fund reported an ending fund balance of \$826,743; a decrease of \$(173,595) in comparison with the prior year. Of this total, \$78,596 has been reserved for prepaid expenditures and inventory. There has been \$200,915 designated for vacation and personal leave. The unreserved and undesignated fund balance at December 31, 2003, was \$547,232.

As a measure of the governmental fund's liquidity, it may be useful to compare unreserved fund balance, total fund balance, and unreserved-undesignated fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 17 percent and 19 percent, respectively, of total fund expenditures, while unreserved-undesignated fund balance represents approximately 13 percent of total expenditures.

Governmental Fund Budgetary Highlights

Over the course of the year, the Van Buren/Cass District Health Department's Board of Directors may amend the budget to take into account events that occur during the year. For the year ended December 31, 2003, intergovernmental revenue decreased due to a reduction in the Comprehensive Planning, Budgeting and Contract (CPBC) Agreement from Michigan Department of Community Health. The expenditures for the amended budget increased due to larger than originally anticipated increases in health insurance costs.

There are variances between the final amended budget and actual amounts for intergovernmental Federal/State revenues and supplies and materials expenditures for recording of the donated vaccine received from the State of Michigan and the use of the vaccine. This non-cash activity related to vaccine supply was not budgeted by the Health Department. Other significant variances between final amended budget and actual amounts are insurance and capital outlay expenditures. The variance of \$35,733 in insurance expenditures is due to a liability claim and the variance of \$53,096 in capital outlay is due to upgrading the computer system and purchasing a scheduling software module.

Capital Asset and Debt Administration

Capital Assets: The Van Buren/Cass District Health Department's investment in capital assets as of December 31, 2003, amounts to \$133,865 (net of accumulated depreciation).

Long-term Obligations: The Van Buren/Cass District Health Department does not have any outstanding debt issues. The only long-term obligation the department currently has relates to compensated absences (e.g., unused vacation and personal leave). The total liability for this long-term obligation at December 31, 2003, is \$200,915.

Economic Factors and Next Year's Budget and Rates

For the fiscal year ending December 31, 2004, close monitoring of State budget actions will continue to be important related to further possible cuts in funding provided through the Comprehensive Planning, Budgeting and Contracting (CPBC) agreement with the Michigan Department of Community Health. This level of funding has a significant impact on the types and levels of service we are able to provide as a Local Public Health Department.

Because the services of the Van Buren/Cass District Health Department are provided based on need and not the ability to pay and the financial condition of the Van Buren/Cass District Health Department is generally sound, the budget for the fiscal year ending December 31, 2004, did not incorporate an increase in any fees charged for services to the general public at that time.

Requests for Information

This financial report is designed to provide a general overview of the Van Buren/Cass District Health Department's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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BASIC FINANCIAL STATEMENTS

Van Buren/Cass County District Public Health Department

STATEMENT OF NET ASSETS

December 31, 2003

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 716,895
Accounts receivable	480,674
Due from other governmental units	
Federal/State	394,717
Local	52,284
Prepaid expenses	38,222
Inventory	<u>81,097</u>
Total current assets	1,763,889
Non-current assets	
Capital assets, net of accumulated depreciation	<u>133,865</u>
TOTAL ASSETS	1,897,754
LIABILITIES	
Current liabilities	
Accounts payable	69,863
Deferred revenue	40,723
Current portion of compensated absences	<u>40,183</u>
Total current liabilities	150,769
Non-current liabilities	
Non-current portion of compensated absences	<u>160,732</u>
TOTAL LIABILITIES	<u>311,501</u>
NET ASSETS	
Invested in capital assets	133,865
Unrestricted	<u>1,452,388</u>
TOTAL NET ASSETS	<u><u>\$ 1,586,253</u></u>

See accompanying notes to financial statements.

Van Buren/Cass County District Public Health Department

STATEMENT OF ACTIVITIES

Year Ended December 31, 2003

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenues and
		Services	Grants and	Changes in
			Contributions	Net Assets
				Governmental
				Activities
Governmental activities:				
Personal health	\$ 3,004,816	\$ 1,060,844	\$ 2,197,585	\$ 253,613
Environmental health	549,234	262,500	78,986	(207,748)
Dental health	466,933	294,838	151,568	(20,527)
Other	277,993	-	173,547	(104,446)
Total governmental activities	<u>\$ 4,298,976</u>	<u>\$ 1,618,182</u>	<u>\$ 2,601,686</u>	(79,108)
General revenues:				
Interest				8,626
County appropriations				
Regular				493,585
Other				102,403
Hotel liquor tax				115,519
Cigarette tax				46,888
Miscellaneous				292
Total general revenues				<u>767,313</u>
Change in net assets				688,205
Net assets, beginning of the year				901,227
Prior period adjustments				<u>(3,179)</u>
Net assets, end of the year				<u>\$ 1,586,253</u>

See accompanying notes to financial statements.

Van Buren/Cass County District Public Health Department

GOVERNMENTAL FUND BALANCE SHEET

December 31, 2003

	Special Revenue
ASSETS	
Cash	\$ 716,895
Accounts receivable	480,674
Due from other governmental units	
Federal/State	394,717
Local	52,284
Prepaid expenditures	38,222
Inventory	81,097
	<hr/>
TOTAL ASSETS	<u>\$ 1,763,889</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 69,863
Deferred revenue	867,283
	<hr/>
TOTAL LIABILITIES	937,146
FUND BALANCE	
Reserved for:	
Prepaid expenditures	38,222
Inventory	40,374
Unreserved	
Designated for vacation and sick leave	200,915
Undesignated	547,232
	<hr/>
TOTAL FUND BALANCE	<u>826,743</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,763,889</u>

See accompanying notes to financial statements.

Van Buren/Cass County District Public Health Department

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2003

Total fund balance - governmental fund \$ 826,743

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 309,095	
Accumulated depreciation is	<u>(175,230)</u>	
		133,865

Deferred revenue has been recorded at the Fund level against receivables
that have been earned but not yet received and therefore not considered
available to finance current operations.

Deferred revenue	826,560
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Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Compensated absences	<u>(200,915)</u>
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Net assets of governmental activities	<u><u>\$ 1,586,253</u></u>
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See accompanying notes to financial statements.

Van Buren/Cass County District Public Health Department

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND

Year Ended December 31, 2003

	Special Revenue
REVENUES	
Licenses and permits	\$ 280,069
Intergovernmental	
Federal/State	2,291,252
Charges for services	773,604
Interest	8,626
Other	48,675
	<hr/>
TOTAL REVENUES	3,402,226
EXPENDITURES	
Current	
Salaries and wages	2,300,985
Fringe benefits	722,560
Supplies and materials	524,547
Contractual	255,346
Telephone	60,792
Travel	107,779
Insurance	53,399
Utilities	22,100
Repairs and maintenance	28,806
Building and equipment lease and rentals	149,933
Printing and advertising	16,379
Postage	16,252
Other	19,063
Capital outlay	53,096
	<hr/>
TOTAL EXPENDITURES	4,331,037
	<hr/>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(928,811)
OTHER FINANCING SOURCES	
County appropriations - regular	493,585
County appropriations - other	102,403
Cigarette tax	46,888
Hotel liquor tax	115,519
	<hr/>
TOTAL OTHER FINANCING SOURCES	758,395
	<hr/>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(170,416)
Fund balance, beginning of year	1,000,338
Prior period adjustments	(3,179)
	<hr/>
Fund balance, end of year	\$ 826,743
	<hr/>

See accompanying notes to financial statements.

Van Buren/Cass County District Public Health Department

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2003

Net change in fund balance - governmental fund \$ (170,416)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 53,096	
Depreciation expense	<u>(19,760)</u>	
Excess of capital outlay over depreciation expense		33,336

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue	826,560
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in accrued compensated absences	<u>(1,275)</u>
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Change in net assets of governmental activities	<u><u>\$ 688,205</u></u>
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See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Van Buren/Cass County District Public Health Department is a joint venture between Van Buren and Cass Counties, and was established to provide public health services. The District Health Board has representation and provides services to Van Buren and Cass Counties. Each County provides annual appropriations and passes through the statutory amounts of cigarette and hotel liquor tax funding to subsidize operations. In addition, the treasury function for the District Health Department rests with the Van Buren County Treasurer. For this reason, the District Health Department is discretely presented in the Van Buren County financial statements.

The District Health Department's financial statements are prepared in accordance with generally accepted principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Department are discussed below.

The primary revenues of the Van Buren/Cass County District Public Health Department are charges for services, Federal and State grants and County appropriations.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Van Buren/Cass County District Public Health Department. The Department is considered a "joint venture" of Van Buren and Cass Counties.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Department as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Department and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and all County appropriations and shows how governmental functions are either self-financing or supported by the general revenues of the Department.

FUND FINANCIAL STATEMENTS

The Department uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Department's individual major fund.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

2. Basis of Presentation - continued

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the Department is:

- a. Special Revenue Fund - This fund is used to account for all financial resources of the Department, which are restricted to expenditures for specified health related purposes.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Department before it has legal claim to them, such as when grant monies are received and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Department reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

The annual budget of the Department is prepared by Department management (based on the consolidation of individual program budgets) and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

5. Cash

Cash consists of the Department's payroll and accounts payable checking account, imprest cash, and cash on deposit with the Van Buren County Treasurer.

6. Receivables and Deferred Revenue

Receivables consist of amounts due from governmental units for various grant programs and accounts receivable for charges for services to clients and other organizations.

The Department has not recognized revenue at the fund level related to client charges for services until it is received due to the collectable portion not being considered "measurable" or "available to finance expenditures of the current period". The Department has recorded deferred revenue at the fund level equaling the amount of the accounts receivable.

The Department has recorded deferred revenue at both the governmental-wide and the fund level equaling the amount of vaccine inventory received from the State of Michigan that is on hand at year-end.

7. Inventories

Inventories are stated at cost on a first in/first out basis. Inventories consist of operating supplies and vaccines received from the State of Michigan. Vaccine inventory on hand at year-end have been reported as deferred revenue. Inventory amounts not reported as deferred revenue are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Capital Assets

Capital assets include equipment and building improvements and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$5,000 or more, with estimated useful lives of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Equipment	4-20 years
Building Improvements	27 years

The Department has no assets that would be classified as infrastructure assets.

9. Compensated Absences

The Department employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount, along with related payroll taxes has been recorded as a current and long-term liability in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

10. Accounting Change

As of January 1, 2003, the Department implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Department's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Department's activities have been provided. A reconciliation is presented between the fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$358,798, which were previously reported in the General Fixed Assets Account Group.
- Liabilities reported on the statement of net assets include \$199,640, which was previously reported in the General Long-term Debt Account Group.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of GASB Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and or amended.

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since its inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH

In accordance with Michigan Compiled Laws, the Department is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE B: CASH - CONTINUED

5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

The Department's bank deposits at December 31, 2003, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Checking accounts	\$ 5,042	\$ 102,502

Bank deposits of the Department are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Department. As of December 31, 2003, the Department's accounts were insured by the FDIC for \$100,000 and \$2,502 was uninsured and uncollateralized.

The cash caption on the balance sheet includes \$375 in imprest cash and \$711,478 in cash that is on deposit with the Van Buren County Treasurer. The cash on deposit with the Van Buren County Treasurer is part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to the Department cannot be determined.

NOTE C: CAPITAL ASSETS

The following provides a summary of the changes in capital assets for the year ended December 31, 2003:

	<u>Restated Balance Jan. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2003</u>
Governmental activities:				
Building improvements	\$ 25,000	\$ -	\$ -	\$ 25,000
Equipment	<u>256,765</u>	<u>53,096</u>	<u>(25,766)</u>	<u>284,095</u>
Totals at historical cost	281,765	53,096	(25,766)	309,095
Less accumulated depreciation for:				
Building improvements	(6,914)	(154)	-	(7,068)
Equipment	<u>(174,322)</u>	<u>(19,606)</u>	<u>25,766</u>	<u>(168,162)</u>
Total accumulated depreciation	<u>(181,236)</u>	<u>(19,760)</u>	<u>25,766</u>	<u>(175,230)</u>
Capital assets, net	<u>\$ 100,529</u>	<u>\$ 33,336</u>	<u>\$ -0-</u>	<u>\$ 133,865</u>

Depreciation expense has been allocated to governmental functions as follows: Personal Health \$905, Dental Health \$594, and Administration \$18,261.

Van Buren/Cass County District Public Health Department

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Health Department for the year ended December 31, 2003:

	<u>Balance Jan. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2003</u>	<u>Amounts due within one year</u>
General Long-Term Debt					
Accumulated compensated absences	<u>\$ 199,640</u>	<u>\$ 1,275</u>	<u>\$ -</u>	<u>\$ 200,915</u>	<u>\$ 40,183</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Accumulated Compensated Absences

Employees of the Van Buren/Cass County District Public Health Department are granted vacation and sick leave in varying amounts based on length of service. Upon termination of employment, employees are paid accumulated vacation at full current rate of pay to a maximum of 25 days, and accumulated sick leave at a rate of 50% of hours accumulated up to a maximum of 750 hours (375 hours payable).

Accumulated vacation leave and sick pay represent a liability to the Department, which is presented as both a current and long-term liability in the government-wide financial statements. Payments to employees for vacation leave and sick pay are recorded as expenditures when they are used and payments are actually made to the employees.

At December 31, 2003, vacation and sick pay including related payroll taxes amounted to \$200,915; \$40,183 of which has been classified as a current liability.

NOTE E: RETIREMENT PLAN

The Van Buren/Cass County District Public Health Department employees participate in the Van Buren County Employee Pension Trust, which became effective on April 30, 1984. This defined contribution plan replaced the Van Buren County Pension Plan that was terminated. Assets of the terminated plan, which represented accumulated employer's contributions were transferred to the new plan and deposited in the Transfer Account of the Trust Fund. Assets that had been accumulated in the previous plan as a result of employee contributions were retained by the trustee of the plan and are to be distributed to plan participants at the time of their retirement according to the terms of that plan's annuity contracts.

All County employees including elected and appointed officials are eligible to participate in the plan. The County is required to pay contributions to the plans that match the participants' contribution up to a maximum of 7% of employee compensation.

The participants' contributions are fully vested at all times. The participants' Employer Contribution Account balance becomes fully vested after 4 years of service. The County plan is invested in Fidelity Mutual Funds.

For the year ended December 31, 2003, the Department had a total and covered payroll of \$2,300,985. The Department made employer contributions to the retirement plan in the amount of \$93,150.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE F: DEFERRED COMPENSATION

Van Buren County (including the Van Buren/Cass County District Health Department) offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to substantially all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered through Fidelity Mutual Funds.

Legislative change has been made to 457 plans which mandates that no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, annuity contract for benefit of participants and their beneficiaries.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiary, and are not subject to the claims of public employees' creditors nor can they be used by the public employee for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. As of December 31, 1998, the County had implemented changes to be in compliance with the new requirement. As a result, the plan assets are not reported by the Department because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

NOTE G: RISK MANAGEMENT

The Department participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Department also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Department has no liability for additional assessments based on the claims filed against the pools nor do they have any right to dividends.

NOTE H: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the current period, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund equity and net assets, respectively. The effect on operations and other affected balances for the current year and prior period are as follows:

	December 31,		
	<u>2003</u>	<u>2002</u>	<u>Description</u>
Cash	\$ -	\$ 6,779	Correct understated cash
Fund balance - beginning	6,779	-	
Net assets - beginning	6,779	-	
Accounts receivable	-	(9,958)	Correct overstated accounts
Revenues over (under) expenditures/expenses	-	(9,958)	receivable
Fund balance - beginning	(9,958)	-	
Net assets - beginning	(9,958)	-	

Van Buren/Cass County District Public Health Department

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Department has set aside for specific purposes.

The following are the fund balance reserves as of December 31, 2003:

Reserved for prepaid expenditures	\$ 38,223
Reserved for inventory	<u>40,374</u>
	<u>\$ 78,596</u>

The following are the fund balance designations as of December 31, 2003:

Designated for vacation and sick leave	<u>\$ 200,915</u>
--	-------------------

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local government unit not incur expenditures in excess of the amounts appropriated.

In the Budgetary Comparison Schedule reported as Required Supplementary Information, the Department's budgeted expenditures in the Special Revenue Fund have been shown at the functional classification level. The approved budget of the Department has been adopted at the total expenditure level.

During the year ended December 31, 2003, the Department incurred expenditures in excess of the amounts appropriated at follows:

<u>Final Amounts Appropriated</u>	<u>Actual Amounts Expended</u>	<u>Variance</u>
\$ 4,127,357	\$ 4,331,037	\$ 203,680

REQUIRED SUPPLEMENTARY INFORMATION

Van Buren/Cass County District Public Health Department

BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND

Year Ended December 31, 2003

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses and permits	\$ 290,172	\$ 283,753	\$ 280,069	\$ (3,684)
Intergovernmental				
Federal/State	2,235,108	2,219,005	2,291,252	72,247
Charges for services	682,290	694,629	773,604	78,975
Interest	25,000	18,400	8,626	(9,774)
Other	62,379	46,159	48,675	2,516
TOTAL REVENUES	3,294,949	3,261,946	3,402,226	140,280
EXPENDITURES				
Current				
Salaries and wages	2,353,992	2,355,390	2,300,985	54,405
Fringe benefits	695,189	750,960	722,560	28,400
Supplies and materials	226,007	226,080	524,547	(298,467)
Contractual	335,213	309,408	255,346	54,062
Telephone	45,048	55,912	60,792	(4,880)
Travel	107,081	116,713	107,779	8,934
Insurance	15,371	17,666	53,399	(35,733)
Utilities	25,979	26,392	22,100	4,292
Repairs and maintenance	23,469	23,469	28,806	(5,337)
Building and equipment lease and rentals	163,013	163,470	149,933	13,537
Printing and advertising	25,058	25,058	16,379	8,679
Postage	14,694	14,694	16,252	(1,558)
Depreciation	21,165	21,165	-	21,165
Other	22,093	20,980	19,063	1,917
Capital outlay	-	-	53,096	(53,096)
TOTAL EXPENDITURES	4,073,372	4,127,357	4,331,037	(203,680)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(778,423)	(865,411)	(928,811)	(63,400)
OTHER FINANCING SOURCES				
County appropriations - regular	493,585	493,585	493,585	-0-
County appropriations - other	102,403	102,403	102,403	-0-
Cigarette tax	43,589	43,589	46,888	3,299
Hotel liquor tax	114,798	114,798	115,519	721
TOTAL OTHER FINANCING SOURCES	754,375	754,375	758,395	4,020
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(24,048)	(111,036)	(170,416)	(59,380)
Fund balance, beginning of year	1,000,338	1,000,338	1,000,338	-0-
Prior period adjustments	-	-	(3,179)	(3,179)
Fund balance, end of year	\$ 976,290	\$ 889,302	\$ 826,743	\$ (62,559)

OTHER SUPPLEMENTARY INFORMATION

Van Buren/Cass County District Public Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2003

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF JUSTICE				
Passed through Michigan Department of Community Health and the Van Buren County Sheriff's Department				
Byrne Formula Grants	16.579			
Jail Substance Abuse Program			\$ 11,175	\$ 11,175
ENVIRONMENTAL PROTECTION AGENCY				
Passed through Michigan Department of Environmental Quality				
State Indoor Radon Grants ^(a)	66.032	N/A	1,800	1,800
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	N/A	<u>7,400</u>	<u>7,400</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			9,200	9,200
U.S. DEPARTMENT OF EDUCATION				
Passed through Michigan Department of Education and Van Buren Intermediate School District				
2002-03 Infant/Toddler (Van Buren)	84.181	N/A	17,000	17,000
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Michigan Department of Community Health				
Family Planning Services (Family Planning) ^(a)	93.217			
FY 02-03		N/A	59,247	59,247
FY 03-04		N/A	<u>19,190</u>	<u>19,190</u>
			78,437	78,437

Van Buren/Cass County District Public Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2003

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED				
Passed through Michigan Department of Community Health - continued				
Immunizations ^(c)	93.268			
FY 02-03 IAP		N/A	\$ 38,645	\$ 38,645
FY 03-04 IAP		N/A	12,728	12,728
FY 02-03 Provider Site Visits ^(b)		N/A	3,150	3,150
FY 02-03 Field Service Registry		N/A	63,208	63,208
FY 03-04 Field Service Registry		N/A	21,675	21,675
FY 02-03 Nurse Training ^(b)		N/A	700	700
FY 02-03 Vaccine supply		N/A	238,973	238,973
FY 03-04 Vaccine supply		N/A	77,678	77,678
FT 02-03 Vaccine handling		N/A	<u>9,091</u>	<u>9,091</u>
			465,848	465,848
Center for Disease Control - Investigations and Technical Assistance	93.283			
Regular 02-03		N/A	75,000	75,000
Regular 03-04		N/A	64,018	64,018
Education Training 03-04		N/A	4,000	4,000
IT Enhancement 03-04		N/A	19,000	19,000
Risk Communication 03-04		N/A	<u>3,422</u>	<u>3,422</u>
			165,440	165,440
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919			
FY 02-03		N/A	600	600
Preventive Health and Health Services Block Grant	93.991			
Preventive Block Grant		N/A	18,020	18,020

Van Buren/Cass County District Public Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2003

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED				
Passed through Michigan Department of Community Health - continued				
Maternal and Child Health Services Block Grant	93.994			
Family Planning Services ^(a)				
FY 02-03		N/A	\$ 10,717	\$ 10,717
FY 03-04		N/A	4,179	4,179
Local MCH Family Planning				
FY 02-03 Regular		N/A	61,018	61,018
FY 03-04 Regular		N/A	20,339	20,339
Case Management Services (CC-LBS) ^(a)				
FY 02-03		N/A	12,779	12,779
FY 03-04		N/A	<u>4,260</u>	<u>4,260</u>
			113,292	113,292
Passed through Michigan Family Independence Agency				
Medical Assistance Program (Title XIX Medicaid)	93.778			
CSHC Care Coordination ^(b)				
FY 02-03		N/A	5,100	5,100
FY 03-04		N/A	<u>2,420</u>	<u>2,420</u>
			7,520	7,520
Temporary Assistance to Needy Families (TANF)	93.558			
FY 02-03 Teen Parent		TP01-80001	56,809	56,809
FY 03-04 Teen Parent		TP01-80001	<u>8,220</u>	<u>8,220</u>
			<u>65,029</u>	<u>65,029</u>
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>914,186</u>	<u>914,186</u>
TOTAL FEDERAL AWARD EXPENDITURES			<u>\$ 951,561</u>	<u>\$ 951,561</u>

Van Buren/Cass County District Public Health Department

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2003

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Van Buren/Cass County District Public Health Department and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursements of these contracts are passed through the State. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the following percentages of Federal participation:

<u>Program</u>	<u>CFDA Number</u>	<u>Percent</u>
State Indoor Radon Grants	66.032	50
Family Planning FY 02-03	93.217	69
Family Planning FY 03-04	93.217	75
Family Planning FY 02-03	93.994	8
Family Planning FY 03-04	93.994	11
Case Management Services FY 02-03	93.994	46
Case Management Services FY 03-04	93.994	52

- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes program tested as "major program".
- (d) The following reconciles the federal revenues reported in the December 31, 2003 fund level financial statements to the expenditures of the Department administered federal programs reported on the Schedule of Expenditures of Federal Awards:

Federal/State Revenue (per financial statements)	\$ 2,291,252
<u>Less: Portions of grant funding considered "State" funding.</u>	<u>(1,279,704)</u>
	<u>\$ 951,561</u>

Principals

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Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Public Health
Van Buren/Cass County District
Public Health Department
Hartford, Michigan

We have audited the component unit financial statements of the Van Buren/Cass County District Public Health Department as of and for the year ended December 31, 2003, and have issued our report thereon dated May 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Van Buren/Cass County District Public Health Department financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Van Buren/Cass County District Public Health Department in a separate letter dated May 19, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Van Buren/Cass County District Public Health Department internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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However, we noted other instances involving control over financial reporting that we have reported to the management of the Van Buren/Cass County District Public Health Department in a separate letter dated May 19, 2004.

This report is intended for the information and use of the board and management, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 19, 2004

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Public Health
Van Buren/Cass County District
Public Health Department
Hartford, Michigan

Compliance

We have audited the compliance of the Van Buren/Cass County District Public Health Department with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major Federal program for the year ended December 31, 2003. The Van Buren/Cass County District Public Health Department major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program is the responsibility of the Van Buren/Cass County District Public Health Department management. Our responsibility is to express an opinion on the Van Buren/Cass County District Public Health Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Van Buren/Cass County District Public Health Department's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Van Buren/Cass County District Public Health Department's compliance with those requirements.

In our opinion, the Van Buren/Cass County District Public Health Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2003.

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Internal Control Over Compliance

The management of the Van Buren/Cass County District Public Health Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Van Buren/Cass County District Public Health Department's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Board and management, Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 19, 2004

Van Buren/Cass County District Public Health Department

SCHEDULE OF FINDINGS

Year Ended December 31, 2003

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the financial statements of the Van Buren/Cass County District Public Health Department.

There were no reportable conditions disclosed by the audit of the financial statements.

We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material affect on the financial statements.

An unqualified opinion was issued on compliance for major programs. We disclosed no findings regarding internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the Immunizations (CFDA 93.268) program. Total Federal expenditures for the year ended December 31, 2003, for the major program were \$465,848, which is approximately 49 percent of the total Federal Award expenditures. Based on the criteria of OMB Circular A-133, the Van Buren/Cass County District Public Health Department qualified as a low-risk auditee for the year ended December 31, 2003.

The Health Department had one (1) Type A program, Immunizations (CFDA 93.268). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to the Major Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Van Buren/Cass County District Public Health Department
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

As noted in the prior year financial statements, the ending balances of the "Hep-B-Adult" reported by the Department on the March 2002 Local Health Department Monthly Vaccine Inventory Report for Cass County did not agree with the ending balances reported on the monthly physical inventory records for Cass County.

This prior year audit finding has been resolved, as the Department has implemented procedures to ensure that the vaccine inventory per the Local Health Department Monthly Vaccine Inventory Report agrees with the ending balances reported on the monthly physical inventory records.

Principals

Dale J. Abraham, CPA
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Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
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MANAGEMENT LETTER

Board of Public Health
Van Buren/Cass County District
Public Health Department
Hartford, Michigan

As you know, we have recently completed our audit of the records of the Van Buren/Cass County District Public Health Department as of and for the year ended December 31, 2003. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management. As noted in our Report on the Compliance and Internal Control Over Financial Reporting dated May 19, 2004, these weaknesses were not considered reportable conditions in relation to the financial statements of the Van Buren/Cass County District Public Health.

1. The Department should make year-end budget amendments.

As noted in the financial statements, the budgeted expenditures of the Department exceeded the amounts appropriated. The Michigan Public Act 621 of 1978, as amended, provides that the Department adopts a formal budget and shall not incur expenditures in excess of the amounts appropriated. This was noted and reported in our audit comments for the prior year.

We suggest the Department monitor the budgeted expenditures against the adopted budget on a periodic basis (i.e., monthly) and make appropriate budget amendments as necessary. The Department should also adopt revenue and expenditure line item budgets for the receipt and usage of vaccines contributed to the Department by the State of Michigan.

2. The Department should escheat unclaimed property to the State of Michigan.

During our audit, it was noted that the Department had \$6,778.72 in property that should have been escheated to the State of Michigan. These amounts were instead written off as voided checks and added back to the Department's fund balance. The Michigan Public Act 29 of 1995 provides that the Department report and escheat unclaimed property over one year old to the State of Michigan after attempts have been made to return the property to its owner. A similar comment was noted and reported in our audit comments for the prior year.

We suggest the Department monitor their unclaimed property and escheat to the State of Michigan as necessary.

3. The Department should review their vaccine inventory procedures.

During our analysis and testing of the internal controls related to vaccine inventory reporting, we noted the ending balance on monthly physical inventory records for IPV vaccine did not agree with the amount reported to the State of Michigan. The Department had reported one (1) more dose of IPV to the State than was indicated on the monthly physical inventory records.

Although we do not consider this to be material to vaccine inventory reporting, we suggest the Department review their inventory procedures to assure that both internal monthly reporting and monthly reporting to the State of Michigan is complete and accurate in the future.

4. The Department should review their insurance billing procedures.

During the course of our audit, we noted that revenues have decreased for Medicare and Managed Care payments. Due to the accounting method used by the Department, which effectively puts these revenues on a cash basis, these revenues are dependent on the timeliness of the billing cycle. We noted that some billings for the year ended December 31, 2003 were not submitted until as late as March of 2004.

We suggest that the Department evaluate their billing practices and make changes that will allow billings to be submitted on a timelier basis.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements dated May 19, 2004.

This report is intended for the information and use of the Board and management of the Van Buren/Cass County District Public Health Department, Federal awarding agencies, and pass-through grantors, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 19, 2004